Core Question 2: Is the organization in sound fiscal health?

The Financial Performance Framework, outlined in Core Question 2, gauges both near term financial health and longer term financial sustainability while accounting for key financial reporting requirements.

2.1. Short-term Health: Does the school demonstrate the ability to pay its obligations in the next 12 months?

Indicator Targets	Does not meet standard	The school does not meet standard on 2 or more of the five sub-indicators shown below.
	Approaching standard	The school approaches standard for all 5 sub-indicators shown below, OR meet standard on 3 sub-indicators, while approaching on the remaining 2 OR meets standard on 4 sub-indicators, while not meeting standard for the final sub-indicator.
	Meets standard	The school meets standard for 4 sub-indicators shown below, while approaching standard on the final sub-indicator.
	Exceeds standard	The school meets standard for all 5 sub-indicators.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
School Rating	2009-10	2010-11	2011-12	2012-13	**2013-14**	2014-15	2015-16
	Not available		AS	DNMS	**DNMS**		

	Sub-		Sub-indicator targets	Result	Rating
Sub-indicator Ratings	Enrollment Ratio	DNMS	Enrollment ratio is less than or equal to 89%	95%	AS
		AS	Enrollment ratio is between 90 – 98%		
		MS	Enrollment ratio equals or exceeds 99%		
	February Enrollment Variance	DNMS	Enrollment ratio is less than or equal to 89%	100%	MS
		AS	Enrollment ratio is between 90 – 95%		
		MS	Enrollment ratio equals or exceeds 95%		
	Current Ratio	DNMS	Current ratio is less than or equal to 1.0	0.33	DNMS
		AS	Current ratio is between 1.0 – 1.1		
		MS	Current ratio equals or exceeds 1.1		
	Days Cash on Hand	DNMS	Days cash on hand is less than or equal to 30	2	DNMS
		AS	Days cash on hand is between 30-45		
		MS	Days cash on hand equals or exceeds 45		
	Debt Default	DNMS	Default or delinquent payments identified	DNMS	DNMS
		MS	Not in default or delinquent		

Irvington Community School receives a rating of **does not meet standard** for Core Question 2.1 because it did not meet standard for three sub-indicators, met standard for one sub-indicator, and approached standard for the remaining sub-indicator. At the September 2013 Count Day, the Indiana Department of Education (IDOE) indicated that school had 1009 students enrolled. This is 95% of the 1057 students that the school promised the community it would serve in its charter contract and thus, is **approaching standard** for the enrollment ratio sub-indicator.

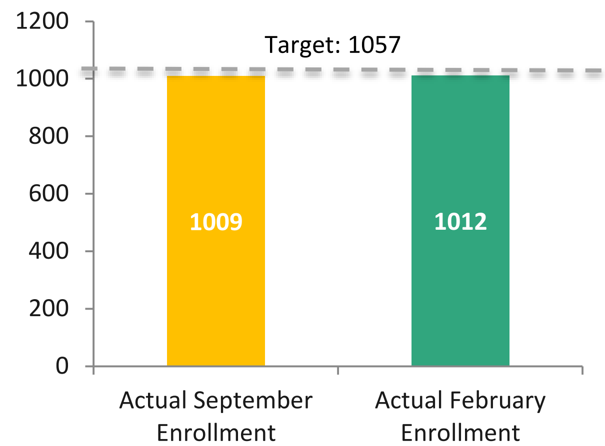
The school met standard for its Feburary Enrollment Variance. This sub-indicator is calculated by dividing the number of students enrolled in the school on the February 2014 Count Day (conducted by the Indiana Department of Education) by the number of students enrolled at the time of the September 2013 Count Day. IDOE indicated that the school had 1012 students enrolled at the February Count Day. This represents slightly over 100% of the number of students enrolled at the time of the September Count Day.

With regard to its current ratio, the school did not meet standard, meaning that it did not have current assets (cash or other assets that can be accessed in the next 12 months) that exceeded its current liabilities (debt obligations due in the next 12 months) by 10% or more.

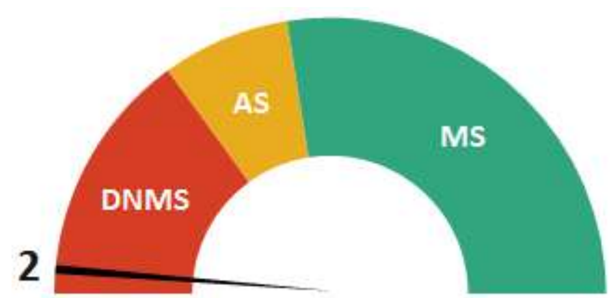
Additionally, the school ended the year with 2 days cash on hand and did not meet standard for this ratio. Days cash on hand is an important measure of a charter school's fiscal health because it indicates how many more days after June 30, 2014, the school would have been able to operate at its current spending levels without receiving a tuition support payment from IDOE.

Lastly, the school did not meet standard for debt default. This metric is determined by both the auditors' comments in the audited financial statements or contact with the school's creditors. In the case of Irvington Community School, its audit indicated that the school defaulted on its credit line and that the line is now in forebearance (see Note 6 in the Financial Statements for more information). Futhermore, though the school did not default on its bond convenants, Note 8 in the Financial Statements indicates that the school ended the fiscal year in non-compliance with its bond convenants.

Enrollment Variance Ratio



Days Cash on Hand



<table>
<tr><th colspan="8">2.2. Long-term Health: Does the organization demonstrate long-term financial health?</th></tr>
<tr><td rowspan="4">Indicator Targets</td><td colspan="2">Does not meet standard</td><td colspan="5">The school does not meet standard on any of the 3 sub-indicators <u>OR</u> meets standard on 1 sub-indicator but does not meet standard on the remaining 2.</td></tr>
<tr><td colspan="2">Approaching standard</td><td colspan="5">The school meets standard on 2 of the sub-indicators while not meeting on the third, <u>OR</u> approaches standard on all 3 sub-indicators.</td></tr>
<tr><td colspan="2">Meets standard</td><td colspan="5">The school meets standard on 2 of the sub-indicators and approaches standard on the third.</td></tr>
<tr><td colspan="2">Exceeds standard</td><td colspan="5">The school meets standard for all 3 sub-indicators.</td></tr>
<tr><td rowspan="3">School Rating</td><td>Year 1</td><td>Year 2</td><td>Year 3</td><td>Year 4</td><td>Year 5</td><td>Year 6</td><td>Year 7</td></tr>
<tr><td>2009-10</td><td>2010-11</td><td>2011-12</td><td>2012-13</td><td>2013-14</td><td>2014-15</td><td>2015-16</td></tr>
<tr><td colspan="4">Not available</td><td>DNMS</td><td></td><td></td></tr>
<tr><td rowspan="10">Sub-indicator Ratings</td><td>Sub-</td><td colspan="4">Sub-indicator targets</td><td>Result</td><td>Rating</td></tr>
<tr><td rowspan="3">Aggregate Three-Year Net Income</td><td>DNMS</td><td colspan="3">Aggregate 3-year net income is negative.</td><td rowspan="3">-$1,295,770 (aggregate)
-$287,995
(current)</td><td rowspan="3">DNMS</td></tr>
<tr><td>AS</td><td colspan="3">Aggregate 3-year net income is positive, but most recent year is negative.</td></tr>
<tr><td>MS</td><td colspan="3">Aggregate three year net income is positive, and most recent year is positive.</td></tr>
<tr><td rowspan="3">Debt to Asset Ratio</td><td>DNMS</td><td colspan="3">Debt to Asset ratio equals or exceeds .95</td><td rowspan="3">1.07</td><td rowspan="3">DNMS</td></tr>
<tr><td>AS</td><td colspan="3">Debt to Asset ratio is between .9 - .95</td></tr>
<tr><td>MS</td><td colspan="3">Debt to Asset ratio is less than or equal to .9</td></tr>
<tr><td rowspan="3">Debt Service Coverage (DSC) Ratio</td><td>DNMS</td><td colspan="3">DSC ratio is less than or equal to 1.05</td><td rowspan="3">0.93</td><td rowspan="3">DNMS</td></tr>
<tr><td>AS</td><td colspan="3">DSC ratio is between 1.05-1.2</td></tr>
<tr><td>MS</td><td colspan="3">DSC ratio equals or exceeds 1.2</td></tr>
</table>

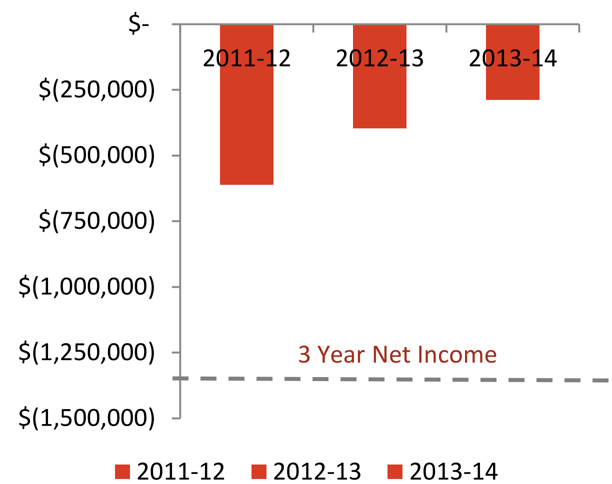
The school received a rating of **does not meet standard** for Core Question 2.2 because it did not meet standard for any of the sub-indicators for this core question. The school **did not meet standard** for the net income sub-indicator and had a current year net income of **-$287,995** and aggregate three year net income of **-$1,295, 770**. This sub-indicator is important because public charter schools, like most non-profits, cannot run at a deficit for an extended period of time and continue to provide services to the community.

Irvington Community School **did not meet standard** for the debt to asset ratio sub-indicator. The school had a debt to asset ratio of 1.07. This means that its debts equated to 107% of its assets.

Lastly, the school **did not meet standard** for debt service coverage (DSC). It had a debt service coverage ratio of 0.93, meaning that it generated a net income in the 2013-14 fiscal year that was insufficient to meet the requirements of its debt payable for the 2014-15 school year. The school's debt for the 2014-15 school year is comprised of a combination of bonds and capital leases that are payable by June 30, 2015.

Given that Irvington Community School received a rating of does not meet standard for every sub-indicator, it receives a rating of **does not meet standard** for Core Question 2.2.

Three-Year Net Income



2.3. Does the organization demonstrate it has adequate financial management and systems?							
Indicator Targets	Does not meet standard	The school does not meet standard on 1 of the sub-indicators.					
	Approaching standard	The school meets standards on 1 sub-indicator, but approaches standard for the remaining sub-indicator.					
	Meets standard	The school meets standard on both sub-indicators.					
School Rating	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
	2009-10	2010-11	2011-12	2012-13	**2013-14**	2014-15	2015-16
	Not available				DNMS		
Sub-indicator Ratings	Sub-indicator	Sub-indicator targets					Rating
	Financial Audit	DNMS	The school receives an audit with multiple significant deficiencies, materials weakness, or has an ongoing concern.				DNMS
		AS	The school receives a clean audit opinion with few significant deficiencies noted, but no material weaknesses.				
		MS	The school receives a clean audit opinion.				
	Financial Reporting Requirements	DNMS	The school fails to satisfy financial reporting requirements.				DNMS
		MS	The school satisfies all financial reporting requirements.				

Irvington Community School received a rating of **does not meet standard** for Core Question 2.3 for the 2013-14 school year. The school received a **does not meet standard** for the financial audit sub-indicator because the audit, completed by Sikich, contained material weaknesses and significant deficiencies in the financial statements. The school's OMB A-133 audit of federal funds also contained significant deficiencies.
The findings in the school's audit can be summarized below and appear on pages 32 and 33 of the audit.

Financial Statement Findings:

1) Prior Period Adjustments

The audit stated that "in prior years, expenses had been duplicated, a number of credit card expenses had not been recorded, and a number of checks needed to be voided". Additionaly, several operating leases had been misclassified as capital leases. This information led to the auditors proposing material changes to financial statements from the prior period. As a result of these changes, Sikich determined that there was "a material weakness in internal control over financial reporting".

The school indicates that this error resulted from an error made by a previous bookkeeping vendor and that it has instituted plans for the Chief Financial Officer to review and modify internal controls to ensure such an error is not made again.

2) Material Adjusting Entries

The audit also stated that the auditors "had to record material adjustments to correct the accounts receivable balance and to correct the classification of leases". The auditors consider these changes "a material weakness in internal control over financial reporting".

The school indicates that this error also resulted from an error made by a previous bookkeeping vendor and that the Chief Financial Officer's future reviews will ensure that such an error is not made again.

3) Completeness of Accounts Payable

During the audit, Sikich found "that a number of accounts payable had been written off due to the School writing checks but not sending them to the vendor". The auditors determined that this was "a significant defiency in internal controls over financial reporting".

Federal Award Findings:

The school failed to complete its audit in compliance with the deadline for the OMB Circular A-133 audit within 9 months of the fiscal year ending June 30,2013. The school, however, ultimately completed the audit process in October 2014. So no remedy is needed at this time.

While Irvington Community School was on the whole timely with its submission of interim financial statements, the initial draft of the school's audit was not received until January 6, 2015 - well after the November 30th deadline. The audit was not finalized until May 6, 2015. As such, the school **does not meet standard** for the financial reporting requirements sub-indicator.

For these reasons, the school **did not meet standard** for Core Question 2.3 for the 2013-2014 school year.